

## I&L- (INSTALLATION REFORM/LR)

**Background:** In April of 1998, General Krulak focused Marine Corps business reform efforts by announcing in White Letter 98-2 that we would adopt best business practices proven in public and private sectors in order to reduce costs without reducing results or quality. The Installation Reform Office (LR) was created in September 1998 to help coordinate the implementation of business reform throughout USMC installations. Reform efforts managed by LR have two significant aims. The first is to save and realign \$414 M over POM 00 from installation O&M accounts to the modernization account. The second is to improve the Marine Corps' ability to comply with legislative mandates that have established legal and administrative authority to enforce new standards of government accountability and performance at the federal level.

Since the early 1990s, the passage and increased enforcement of legislative acts (TAB A) spawned by the National Performance Review (since renamed National Partnership for Reinventing Government) have slowly re-defined important standards of government performance and accountability. Performance-based government is no longer an option. It is law. Specific DoD reform efforts specified by the Defense Reform Initiative (DRI) are intended to not only reduce overhead and inefficiencies in order to generate savings for future procurement, but also create a sustainable capability to comply with statutory law mandating new levels of performance and accountability.

**Issue:** In order to meet or exceed legal and administrative requirements for performance and accountability, the Marine Corps must adopt and implement significant organizational change within the installations and across the Headquarters. Primary areas of change include improvements to using quantifiable performance and cost indicators to link strategic plans and objectives to program performance in the context of the planning, programming and budgeting process; personnel training, development and management; activity or *process*-based information management; cost and performance measurement and management; managerial cost accounting.

Concurrent to organizational change efforts in aforementioned areas, primacy of support to operating forces remains constant to the *5<sup>th</sup> Element of the MAGTF*. The challenge is to develop new systems, structures and processes that deliver efficient performance fully capable of withstanding congressional scrutiny, oversight and special interests, but also meet emerging installation requirements articulated by OMFTS, Sea-Based Logistics and Homeland Defense. As new sourcing mechanisms such as outsourcing and privatization are evaluated on the basis of efficiency, they must also be scrutinized for effectiveness in supporting and sustaining warfighting requirements in the *Joint Vision 2010* environment.

**Current Efforts:** TAB B outlines current implementation of activity based costing/management throughout all installations. In April 1999 ACMC directed an enterprise-wide implementation of Activity Based Costing and Management (ABC/M) across all installations. In July of 1999, OSD directed all services to implement ABC/M.

TAB A

- 1990 Chief Financial Officer Act (CFO)
- 1993 Government Performance Results Act (GPRA)
- 1993 Clinger-Cohen Act
- 1994 Government Management Reform Act (GMRA)

## INFORMATION PAPER

Subject: **Implementing Activity Based Costing and Management (ABC/M)**

1. **Purpose.** The USMC has always worked to be good stewards of taxpayer dollars. In April of 1998, General Krulak focused Marine Corps reform efforts by announcing in White Letter 98-2, that we would improve business practices proven in public and private sectors in order to reduce costs without reducing results or quality. General Krulak's announcement triggered actions that are summarized in this information paper.
2. **Key Points.** In September 1998, the Installation Reform Division was created in I&L to coordinate implementation of improved business practices aboard USMC installations. In April 1999, ACMC signed the Installation Reform Business Plan that articulates the business reform vision, policies and focus areas. Concurrent to signing the business plan, and at the request of both force and all the installation commanders, ACMC directed an enterprise-wide implementation of Activity Based Costing and Management (ABC/M) across all installations. In July of 1999, OSD directed all services to implement ABC/M.
  - ABC is a tool (methodology, data, and software) that has demonstrated capability to significantly improve the visibility of cost and performance of the work being done in an organization. ABM is a methodology that uses ABC data to improve performance and reduce costs. Combined, ABC/M supports Business Process Reengineering (BPR), Benchmarking and the ability to construct meaningful performance measures linked to operational and strategic objectives. ABC/M supports these other initiatives by improving visibility of cost and performance of the work being done on the installations.
  - By selecting ABC/M, the USMC has chosen two best practices that make sense for our organization, our culture and our business objectives. But transforming the Marine Corps installations into organizations that are *performance* and *cost management focused* will be hard. Many organizations in the public and private sector have failed in this endeavor.
  - Organizations that have succeeded have several things in common. They have planned in advance to persevere in the face of the significant change inherent in projects of this kind. Strong senior leadership understands and supports the project. Strong leadership is the driving force in creating crucial awareness, buy-in and ownership of ABC/M at all levels in the organization. Awareness, buy-in and ownership is an essential pre-requisite to putting the right people on the project, and ensuring adequate resources are made available to *support and sustain* it.

- ABC/M will impact people and processes throughout the organization when fully employed and sustained. *What people must know, do and be in the organization is going to change.* The basic competencies required to support and sustain these practices will, if the private sector's experiences hold true for us, predicate significant change to our conventional organizational structure. While the ways in which we accomplish work has changed, the structure for staff oversight has not. Despite the revolutionary changes in technologies and information management, our conventional staff structure (G1 to the G8) has remained in tact for decades if not centuries. *ABC/M can be suboptimized by hierarchical, stovepipe organizational structures that impede the flow of ABC/M information to decision-makers*
- *The changes impacting people will eventually require changes to our training and indoctrination.* We'll eventually want to instill relevant ABC/M management skills in our emerging leaders. MOS schools, professional schools, PME and the creation of internships, and assignment of some of our graduate trained officers (in contracting, financial and systems management) to do their payback tour in the business offices at our installations are some possible areas that could be implicated.
- While the commanders and senior military leaders at our installations bring significant leadership skills to their jobs, the decision to implement better, and in many cases complex, business practices dictates that we make a structural adjustment so our military commanders have a principal advisor and overseer on business matters. Ideally, this individual would possess skills in public administration, cost management, strategic planning, and community management. From the private sector, we know these critical competencies are required.
- *ABC data will be used to help the commanders save \$32M in FY 00* that has already been realigned to the modernization accounts. The benefits to us will immediately be felt with the realignment of nearly \$414 over POM 00 from our installations to the modernization account. It will also support achievement of increasing savings goals in the future. ABC/M will help identify where we can most prudently reduce activities, actually cut the work, instead of just cutting the people as we have in the past. It will help us make better decisions to change in contrast to the old process euphemistically referred to as "fair-sharing".
- *ABC/M will become central to the strategic planning, programming and budgeting aboard each base.* ABC/M will create a total resource view of what it takes to get the work done. Using the vision, mission, goals, and outputs (and associated metrics) defined in the base strategic plan, ABC/M information will be to develop future budget requirements. By POM 04, installation resource requests should be improved by the inclusion of more quantitative information that connects the output of processes aboard an installation to metrics measuring the output and total resources consumed to obtain it.

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